Chief Albert Luthuli Local Municipality
Annual Financial Statements
for the year ended 30 June 2016

General Information

Legal form of entity	Local municipality
Municipal demarcation code	MP301
Executive Mayor	Shiba BP
Speaker	Nkosi SM
Chief Whip	Nkosi DP
Mayoral committee	Mngomezulu MW
	Mnisi NM
	Thabethe QG
Councillors	Cindi NR
	Dlulu ZM
	Hlatswayo MG
	Lubede EJ
	Maduna ME
	Mekene J
	Makhubelo NV
	Malaza STQ
	Masuku BM
	Masuku LL
	Mbhele JS
	Mdluli NI
	Mhlanga PP
	Mkhabela EB
	Mngomezulu MW
	Mnisi N
	Mnisi NM
	Motaung RM
	Motha TW
	Nthombeni SF
	Neethling ML
	Ngubeni A
	Nkabinde NJ
	Nkosi AD
	Nkosi DP
	Nkosi FE
	Nkosi GJ
	Nkosi JS
	Nkosi MH
	Nkosi MJ
	Nkosi NM
	Nkosi SJ
	Nkosi SM
	Nkosi SZ
	Nkosi VL
	Ntuli FJ

General Information

	Phakathi FDM Shabangu LD Shabangu VS Shiba BP Sikhakane NB Simelani JD Soko JP Steenkamp ML Thabethe QG Thomo NG Vilakazi RG Zulu TW Zwane TE
Grading of local authority	Grade 3
Capacity of local authority	Medium capacity
Accounting Officer	Mpila VN
Chief Finance Officer (CFO)	Nhlabathi MJ
Registered office	28 Kerk Street Carolina Mpumalanga 1185
Business address	28 Kerk Street Carolina Mpumalanga 1185
Postal address	Private Bag X24 Carolina 1185
Bankers	Standard Bank of South Africa Limited
Auditors	Auditor-General of South Africa
Attorneys	Guzana Attorneys Mcbeth Ncongwane Attorneys TMN Kgomo Attorneys Mohlala Attorneys

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The reports and statements set out below comprise the annual financial statements presented to the council:

Abbreviations

EPWP	Expanded Public Work Programme
GRAP	Generally Recognised Accounting Practice
FMG	Finance Management Grant
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
IPSAS	International Public Sector Accounting Standards
MMC	Member of Mayoral Committee
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SALGA	South Africal Local Government Association
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 7 to 89, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on by:

Accounting Officer
Mpila VN

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2016.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 4 meetings were held.

Name of member	Number of meetings attended
Tebogo Gafane (Chairperson)	7
Xolani Khumalo	2
Sanelisiwe Gumbi	4
Mmabatho Sepuru	2

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the internal auditors, the audit report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in-year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the accounting officer of the municipality during the year under review.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the unaudited annual financial statements with the accounting officer;
- reviewed changes in accounting policies and practices;
- reviewed the entity's compliance with legal and regulatory provisions;

Audit Committee Report

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audit.

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Chairperson of the Audit Committee

Date: ______________________

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The municipality is engaged in local governance acitivites, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates and general services - All types of services rendered by the municipality, excluding the following: Housing Services - supply housing to the community and includes the rental of units owned by the municipality to public and staff; Waste Management Services - The collection, disposal and purifying of waste, refuse and sewerage; Electricity Services - Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality; and Water Services - Supplying water to the public.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R80,515,616 (2015: surplus R61,651,074).

2. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated surpluses of R853,026,304 (2015: R772,510,688).

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations of such Statements issued by the Accounting Standards Board.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
VN Mpila	South African

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	398,284	3,932,975
Receivables from exchange transactions	4	38,480,674	38,332,539
Receivables from non-exchange transactions	5	81,426,966	69,440,423
Inventories	6	2,509,045	2,243,825
Investments	7	3,151,809	3,085,281
VAT receivable	52	9,389,105	5,265,342
Operating lease asset	8	882,283	267,544
		136,238,166	**122,567,929**
Non-Current Assets			
Investments	7	307,618	288,645
Investment property	9	19,142,500	19,142,500
Property, plant and equipment	10	978,043,785	897,872,932
		997,493,903	**917,304,077**
Total Assets		**1,133,732,069**	**1,039,872,006**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	200,315,669	187,920,715
Finance lease obligation	12	493,012	417,763
Unspent conditional grants and receipts	13	2,500,295	4,934,887
Provisions	14	10,078,952	9,618,785
		213,387,928	**202,892,150**
Non-Current Liabilities			
Finance lease obligation	12	430,853	956,850
Provisions	14	25,079,221	22,508,555
Employee benefit obligation	15	10,338,000	10,865,000
Long service award accrual	16	7,423,000	6,092,000
		43,271,074	**40,422,405**
Total Liabilities		**256,659,002**	**243,314,555**
Net Assets		**877,073,067**	**796,557,451**
Accumulated surplus		853,026,304	772,510,688
Reserves			
Revaluation reserve	17	24,046,763	24,046,763
Total Net Assets		**877,073,067**	**796,557,451**

* See Note 53

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	35,144,258	33,933,950
Rental income	20	2,642,970	820,797
Interest received - consumers	21	24,484,144	19,925,640
Licences and permits	23	1,944,052	2,336,519
Other income	24	1,347,507	965,539
Gain on disposal of assets	18	-	714,628
Interest received - investments	22	2,068,800	1,765,792
Fair value adjustments	40	87,941	53,164
Total revenue from exchange transactions		**67,719,672**	**60,516,029**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	47,833,898	37,305,202
Transfer revenue			
Government grants and subsidies	26	350,869,667	341,138,488
Donations	27	3,729,658	9,153,570
Fines	28	5,213,955	1,937,741
Total revenue from non-exchange transactions		**407,647,178**	**389,535,001**
Total revenue	18	**475,366,850**	**450,051,030**
Expenditure			
Employee related costs	29	(134,917,803)	(117,131,453)
Remuneration of councillors	30	(15,028,644)	(14,112,693)
Depreciation	31	(38,371,573)	(36,929,976)
Rehabilitation provision movement	33	5,886,025	(3,275,313)
Finance costs	32	(2,850,714)	(14,803,812)
Debt Impairment	34	(46,423,484)	(32,270,976)
Repairs and maintenance	35	(18,464,087)	(29,514,287)
Bulk purchases	36	(56,660,171)	(54,170,720)
Contracted services	37	(45,280,170)	(35,538,902)
Loss on disposal of assets	38	(336,761)	-
General expenses	39	(42,403,852)	(50,651,824)
Total expenditure		**(394,851,234)**	**(388,399,956)**
Surplus for the year		**80,515,616**	**61,651,074**

* See Note 53

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	24,046,763	729,604,853	753,651,616
Correction of errors (refer note 53)	-	(18,745,239)	(18,745,239)
Balance at 01 July 2014 as restated*	**24,046,763**	**710,859,614**	**734,906,377**
Changes in net assets			
Surplus for the year	-	61,651,074	61,651,074
Total changes	-	61,651,074	61,651,074
Restated* Balance at 01 July 2015	**24,046,763**	**772,510,688**	**796,557,451**
Changes in net assets			
Surplus for the year	-	80,515,616	80,515,616
Total changes	-	80,515,616	80,515,616
Balance at 30 June 2016	**24,046,763**	**853,026,304**	**877,073,067**

* See Note 53

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Service charges		24,639,572	20,665,300
Government grants and subsidies		348,435,075	305,295,000
Interest received - investments		2,068,800	1,765,792
Interest income - consumers		24,484,144	19,925,640
Other receipts		14,450,851	6,054,916
		414,078,442	353,706,648
Payments			
Employee related costs		(149,142,447)	(129,509,490)
Suppliers		(150,556,976)	(44,623,957)
Finance costs		(165,926)	(14,835,481)
Other payments		-	(35,538,902)
		(299,865,349)	(224,507,830)
Net cash flows from operating activities	42	**114,213,093**	**129,198,818**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(118,413,922)	(145,730,126)
Proceeds from sale of property, plant and equipment	10	1,228,567	1,228,567
Movement in investments		2,441	(139,314)
Net cash flows from investing activities		**(117,182,914)**	**(144,640,873)**
Cash flows from financing activities			
Finance lease receipts/(payments)		(564,870)	740,975
Net increase/(decrease) in cash and cash equivalents		**(3,534,691)**	**(14,701,080)**
Cash and cash equivalents at the beginning of the year		3,932,975	18,634,055
Cash and cash equivalents at the end of the year	3	**398,284**	**3,932,975**

* See Note 53

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (Note 51)
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	43,288,645	961,754	**44,250,399**	35,144,258	**(9,106,141)**	51.1
Rental income	834,852	1,014,475	**1,849,327**	2,642,970	**793,643**	51.2
Interest received - consumers	18,751,154	-	**18,751,154**	24,484,144	**5,732,990**	51.3
Licence and permits	2,456,789	-	**2,456,789**	1,944,052	**(512,737)**	51.4
Other income	834,417	2,752,341	**3,586,758**	1,347,507	**(2,239,251)**	51.5
Interest received - investment	2,345,678	-	**2,345,678**	2,068,800	**(276,878)**	51.6
Total revenue from exchange transactions	**68,511,535**	**4,728,570**	**73,240,105**	**67,631,731**	**(5,608,374)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	39,348,091	-	**39,348,091**	47,833,898	**8,485,807**	51.7
Transfer revenue						
Government grants and subsidies	227,967,550	-	**227,967,550**	350,869,667	**122,902,117**	51.8
Donations	-	-	**-**	3,729,658	**3,729,658**	51.9
Fines	300,399	(51,299)	**249,100**	5,213,955	**4,964,855**	50.10
Total revenue from non-exchange transactions	**267,616,040**	**(51,299)**	**267,564,741**	**407,647,178**	**140,082,437**	
Total revenue	**336,127,575**	**4,677,271**	**340,804,846**	**475,278,909**	**134,474,063**	
Expenditure						
Employee related costs	(110,898,235)	(13,296,721)	**(124,194,956)**	(134,917,803)	**(10,722,847)**	51.11
Remuneration of councillors	(17,042,923)	1,651,452	**(15,391,471)**	(15,028,644)	**362,827**	51.12
Depreciation and amortisation	(66,974,588)	21,304,588	**(45,670,000)**	(38,371,573)	**7,298,427**	51.13
Rehabilitation costs	-	-	**-**	5,886,025	**5,886,025**	51.14
Finance costs	(976,819)	-	**(976,819)**	(2,850,714)	**(1,873,895)**	51.15
Allowance for debt impairment	(30,070,158)	(336,614)	**(30,406,772)**	(46,423,484)	**(16,016,712)**	51.16
Repairs and maintenance	(13,399,929)	275,856	**(13,124,073)**	(18,464,087)	**(5,340,014)**	51.17
Bulk purchases	(44,781,779)	(5,349,814)	**(50,131,593)**	(56,660,171)	**(6,528,578)**	51.18
Contracted services	(30,470,000)	398,400	**(30,071,600)**	(45,280,170)	**(15,208,570)**	51.19
General expenses	(68,323,785)	12,521,757	**(55,802,028)**	(42,403,852)	**13,398,176**	51.20
Total expenditure	**(382,938,216)**	**17,168,904**	**(365,769,312)**	**(394,514,473)**	**(28,745,161)**	
Operating surplus	**(46,810,641)**	**21,846,175**	**(24,964,466)**	**80,764,436**	**105,728,902**	
Loss on disposal of assets	-	-	**-**	(336,761)	**(336,761)**	51.21
Fair value adjustments	-	-	**-**	87,941	**87,941**	
	-	**-**	**-**	**(248,820)**	**(248,820)**	
Surplus/ (deficit) for the year	**(46,810,641)**	**21,846,175**	**(24,964,466)**	**80,515,616**	**105,480,082**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(46,810,641)**	**21,846,175**	**(24,964,466)**	**80,515,616**	**105,480,082**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (Note 51)
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	2,378,455	**2,378,455**	2,509,045	**130,590**	51.22
Investments	-	305,964	**305,964**	3,151,809	**2,845,845**	51.23
Operating lease asset	-	-	**-**	882,283	**882,283**	50.24
Receivables from non-exchange transactions	-	72,567,677	**72,567,677**	81,426,966	**8,859,289**	51.25
VAT receivable	-	-	**-**	9,389,105	**9,389,105**	51.26
Receivables from exchange transactions	51,401,257	-	**51,401,257**	38,480,674	**(12,920,583)**	51.27
Cash and cash equivalents	7,516,576	-	**7,516,576**	398,284	**(7,118,292)**	51.28
	58,917,833	**75,252,096**	**134,169,929**	**136,238,166**	**2,068,237**	
Non-Current Assets						
Investment property	20,179,500	-	**20,179,500**	19,142,500	**(1,037,000)**	51.29
Property, plant and equipment	907,006,605	-	**907,006,605**	978,043,785	**71,037,180**	51.30
Investments	-	-	**-**	307,618	**307,618**	51.23
	927,186,105	**-**	**927,186,105**	**997,493,903**	**70,307,798**	
Total Assets	**986,103,938**	**75,252,096**	**1,061,356,034**	**1,133,732,069**	**72,376,035**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	455,283	**455,283**	493,012	**37,729**	51.31
Payables from exchange transactions	32,479,703	578,000	**33,057,703**	200,315,663	**167,257,960**	51.32
Unspent conditional grants and receipts	-	-	**-**	2,500,295	**2,500,295**	51.33
Provisions	-	10,195,912	**10,195,912**	10,078,952	**(116,960)**	51.34
	32,479,703	**11,229,195**	**43,708,898**	**213,387,922**	**169,679,024**	
Non-Current Liabilities						
Finance lease obligation	-	1,014,261	**1,014,261**	430,853	**(583,408)**	51.31
Employee benefit obligation	-	-	**-**	10,338,000	**10,338,000**	51.35
Provisions	27,655,881	-	**27,655,881**	25,079,221	**(2,576,660)**	51.34
Long service award accrual	-	-	**-**	7,423,000	**7,423,000**	51.36
	27,655,881	**1,014,261**	**28,670,142**	**43,271,074**	**14,600,932**	
Total Liabilities	**60,135,584**	**12,243,456**	**72,379,040**	**256,658,996**	**184,279,956**	
Net Assets	**925,968,354**	**63,008,640**	**988,976,994**	**877,073,073**	**(111,903,921)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	24,046,763	-	**24,046,763**	24,046,763	**-**	
Accumulated surplus	901,921,591	63,008,640	**964,930,231**	853,026,310	**(111,903,921)**	51.37

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (Note 51)
Total Net Assets	**925,968,354**	**63,008,640**	**988,976,994**	**877,073,073**	**(111,903,921)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts or recoverable service amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value-in-use of cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value-in-use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

Value-in-use of non-cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 15.

Effective interest rate

The municipality uses the government bond rate to discount future cash flows except where stated otherwise.

Allowance for impairment

For receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.3 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value every 4 years, refer to note 9.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss from the derecognition of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such difference is recognised in surplus or deficit when the asset is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Accounting Policies

1.4 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	10 - 50 years
Infrastructure	Straight line	15 - 80 years
Community	Straight line	10 - 50 years
Landfill site	Straight line	20 years
Other property, plant and equipment	Straight line	2 - 35 years
- Vehicles		
- Furniture		
- Leased assets		

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Accounting Policies

1.5 Site restoration and dismantling cost (continued)

The related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Long-term receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Accounting Policies

1.6 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability, other than those subsequently measures at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures all other financial assets and financial liabiliites initially at fair value.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

For fair value measurement recognised in the statement of financial position, the municipality classifies the fair value measurements using a fair value hierachy that reflects the significance of the inputs used in making the measurement. The fair value hierachy has the following levels:

a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
b) inputs other than quoted prices included within Level 1 that are observable for the asset or liablity, either directly (i.e as prices) or indirectly (i.e. derived from prices) (Level 2);
c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierachy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that requre significant adjustment based on unobservable inputs, that particular measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors to the asset or liability.

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility in the case of a financial asset.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

1.6 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Accounting Policies

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and building elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets in the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Accounting Policies

1.8 Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Water is regarded as inventories when the municipality purchases water in bulk with the intention to resell it to consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in water dams under the control of the municipality, that are filled by natural resources and that has not yet been treated, can not be measured reliably as there is no cost attached to the water, and is therefore not recognised as inventories.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Value-in-use

Value-in-use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value-in-use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value-in-use; and
- the future cash outflows used to determine the value-in-use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value-in-use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.11 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Value-in-use

Value-in-use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality will not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.12 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within 12 months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises, because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement.

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

1.12 Employee benefits (continued)

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Accounting Policies

1.12 Employee benefits (continued)

Long-term service awards

The municipality has an obligation to provide long-term service allowance benefits to all of its employees. According to the rules of the long-term service allowance scheme, which the municipality instituted and operates, an employee (who is in current condition of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes, as a minimum:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than twelve months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Accounting Policies

1.13 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating expenditure.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

Accounting Policies

1.13 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit;
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on municipalities in accordance with legislation (i.e. laws and/or regulations), other than:
- those outflows of resources that are within the scope of other Standards; and
- fines or other penalties that are imposed for breaches of the legislation.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time.

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy, but does not yet have a present obligation to pay that levy.

1.14 Discontinued operations

Discontinued operation is a component of the municipality that has been disposed of and:
- represents a distinguishable activity, group of activities or geographical area of perations;
- is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- is a controlled entity acquired exclusively with a view to resale.

A component of the municipality is the operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the municipality.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

1.15 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of municipal assets yielding interest, royalties and dividends or similar distributions is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes (property rates for municipalities)

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Collection charges and penalties

Collection charges and penalty interest are recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with the relevant legal requirements.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by debtors.

Where the municipality collects fines in the capacity of an agent, 20% of the fines will not be revenue of the municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in-kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Service in-kind are not recognised.

Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue, is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exists in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Service concession arrangements: Grantor

A service concession arrangement is a contractual arrangement between a grantor (the municipality) and an operator in which:
- the operator uses the service concession asset to provide a mandated function on behalf of the municipality for a specified period of time; and
- the operator is compensated for its services over the period of the service concession arrangement.

A service concession asset is an asset used to provide a mandated function in a service concession arrangement that:
- is provided by the operator which:
  - the operator constructs, develops, or acquires from a third party; or
  - is an existing asset of the operator.

Accounting Policies

1.18 Service concession arrangements: Grantor (continued)

- is provided by the grantor (municipality) which:
  - is an existing asset of the municipality; or
  - is an upgrade to an existing asset of the municipality.

An asset is provided by the operator, or an upgrade to an existing asset of the municipality is recognised as a service concession asset if:

- the municipality controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price;
- the municipality controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the asset at the end of the arrangement.

The municipality measures initially a service concession asset at its fair value.

The municipality recognises a liability where a service concession asset is recognised.

The liability is initially recognised at the same amount as the service concession asset, adjusted by the amount for any consideration from the municipality to the operator, or from the operator to the municipality.

Where the municipality has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition or upgrade of a service concession asset, the liability is accounted for as a financial liability in accordance with GRAP 104.

The payments made to the operator are accounted for according to their substance as:

- a reduction in the liability recognised;
- a finance charge; and
- charges for services provided by the operator.

Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments are allocated by reference to the relative fair values of the service concession asset and the services. If not, the service component of payments is determine using valuation techniques.

Where the municipality does not have an unconditional obligation to pay cash or another financial asset to the operator, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the liability is accounted for as the unearned portion of revenue arising from the exchange of assets between the municipality and the grantor.

The liability is reduced and revenue recognised according to the substance of the service concession arrangement.

1.19 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes:

- overspending of the total amount appropriated in the municipality’s approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of ‘‘allocation’’ otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credit against accumulated surplus when retrospective adjustments are made.

1.23 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments, which are disclosed in note 43.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed if both the following criteria are met:

- contracts are non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.24 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving raise to the transfer occurred.

1.25 Budget information

The approved budget is prepared on the accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2015 to 30/06/2016.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.25 Budget information (continued)

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 105: Transfers of Functions Between Entities Under Common Control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.
The difference between the amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.
In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between the amount of consideration paid, if any, and the carrying amounts of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For a transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 107: Mergers

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger.

A merger is where a new combined entity is started, acquirer can be identified and the conbining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and should be derecognised (by the combining entities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

IGRAP 11: Consolidation – Special purpose entities

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called 'autopilot'). The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's net assets.

The Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard of GRAP does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This interpretation of the Standards of GRAP does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation of the Standards of GRAP may mean that the entity should consolidate the SPE. This Interpretation of the Standards of GRAP does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

The effective date of the interpretation is for years beginning on or after 01 April 2015.

The municipality has adopted the interpretation for the first time in the 2016 annual financial statements.

The impact of the interpretation is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures

Paragraph .54 in the Standard of GRAP on Interests in Joint Ventures refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction'. In addition, paragraph 31 in the Standard of GRAP on Interests in Joint Ventures says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest'. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').

Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE ('additional consideration').

The issues are:

- when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
- how additional consideration should be accounted for by the venturer; and
- how any unrealised gain or loss should be presented in the consolidated

This Interpretation of the Standards of GRAP deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

The effective date of the interpretation is for years beginning on or after 01 April 2015.

The municipality has adopted the interpretation for the first time in the 2016 annual financial statements.

The impact of the interpretation is not material.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the amendment is for years beginning on or after 01 April 2015.

The municipality has adopted the amendment for the first time in the 2016 annual financial statements.

The impact of the amendment is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the amendment is for years beginning on or after 01 April 2015.

The municipality has adopted the amendment for the first time in the 2016 annual financial statements.

The impact of the amendment is not material.

GRAP 8 (as revised 2010): Interests in Joint Ventures

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the amendment is for years beginning on or after 01 April 2015.

The municipality has adopted the amendment for the first time in the 2016 annual financial statements.

The impact of the amendment is not material.

Directive 11: Changes in Measurement Bases Following the Initial Adoption of Standards of GRAP

The objective of this directive is to permit the municipality to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this directive allows the municipality, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the municipality elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the municipality made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Subsequent to the application of this directive, the municipality will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The effective date of the directive is for years beginning on or after 01 April 2015.

The municipality has adopted the directive for the first time in the 2016 annual financial statements.

The impact of the directive is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:
- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:
- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:
- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset’s service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset’s service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. “Generally accepted accounting practice” has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The municipality expects to adopt the standard for the first time in the 2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

3. Cash and cash equivalents

Cash and cash equivalents consist of:

	2016	2015
Cash on hand	1,117	1,117
Bank balances	284,287	386,756
Call account	112,880	3,545,102
	398,284	**3,932,975**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
Standard Bank - Current - 033-255-954	284,287	386,756	2,436,341	284,287	386,756	2,436,341
Standard Bank - Investment - 038478668-002	30,677	486,497	253,745	30,677	486,497	253,745
Standard Bank - Investment - 308654552-001	82,203	3,058,605	15,942,852	82,203	3,058,605	15,942,852
Total	**397,167**	**3,931,858**	**18,632,938**	**397,167**	**3,931,858**	**18,632,938**

4. Receivables from exchange transactions

	2016	2015
Gross balances		
Water	12,624,584	10,045,968
Refuse	30,203,922	44,957,424
Sewerage	38,098,597	45,758,317
Electricity	9,073,645	17,621,080
Other	16,944,975	17,224,135
	106,945,723	**135,606,924**
Less: Allowance for impairment		
Water	(1,797,866)	(4,800,440)
Refuse	(21,696,605)	(33,803,316)
Sewerage	(27,499,684)	(34,192,993)
Electricity	(6,069,234)	(12,597,019)
Other	(11,401,660)	(11,880,617)
	(68,465,049)	**(97,274,385)**
Net balance		
Water	10,826,718	5,245,528
Refuse	8,507,317	11,154,108
Sewerage	10,598,913	11,565,324
Electricity	3,004,411	5,024,061
Other	5,543,315	5,343,518
	38,480,674	**38,332,539**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

4. Receivables from exchange transactions (continued)

	2016	2015
Water		
Current (0 - 30 days)	5,411,868	405,205
31 - 60 days	1,002,962	331,981
61 - 90 days	138,565	308,641
> 90 days	6,071,189	9,000,141
Less : Allowance for impairment	(1,797,866)	(4,800,440)
	10,826,718	**5,245,528**
Refuse		
Current (0 - 30 days)	634,718	609,869
31 - 60 days	512,273	577,476
61 - 90 days	447,501	554,374
> 90 days	28,609,430	43,215,705
Less : Allowance for impairment	(21,696,605)	(33,803,316)
	8,507,317	**11,154,108**
Sewerage		
Current (0 - 30 days)	679,750	612,527
31 - 60 days	523,234	572,094
61 - 90 days	511,598	547,461
> 90 days	36,384,016	44,026,235
Less : Allowance for impairment	(27,499,685)	(34,192,993)
	10,598,913	**11,565,324**
Electricity		
Current (0 - 30 days)	709,407	841,423
31 - 60 days	144,105	429,839
61 - 90 days	352,768	262,038
> 90 days	7,867,365	16,087,780
Less : Allowance for impairment	(6,069,234)	(12,597,019)
	3,004,411	**5,024,061**
Other		
Current (0 - 30 days)	381,054	352,880
31 - 60 days	328,588	301,694
61 - 90 days	321,387	177,807
> 90 days	15,913,945	16,391,754
Less : Allowance for impairment	(11,401,659)	(11,880,617)
	5,543,315	**5,343,518**
Total		
Current (0 - 30 days)	7,816,796	2,821,894
31 - 60 days	2,511,162	2,213,084
61 - 90 days	1,771,819	1,850,321
> 90 days	94,845,946	128,721,625
Less : Allowance for impairment	(68,465,049)	(97,274,385)
	38,480,674	**38,332,539**

4. Receivables from exchange transactions (continued)

Consumer debtors pledged as security

None of the consumer receivables were pledged as security.

None of the financial assets that are fully performing have been renegotiated in the prior year.

Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The municipality does not hold any collateral as security.

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions in respect of government debtors are not considered to be impaired. At 30 June 2016, R35,152,971 (2015: R24,365,886) were past due but not impaired.

Receivables from exchange transactions impaired

As of 30 June 2016, receivables from exchange transactions of R106,945,723 (2015: R135,606,924) were impaired and provided for.

The amount of the allowance was R68,465,049 as of 30 June 2016 (2015: R97,274,385).

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

5. Receivables from non-exchange transactions

	2016	2015
Property rates	263,127,791	251,221,315
Traffic fines	6,716,603	1,914,718
Trade debtors	56,982	717,335
Staff debtors	309,717	4,138
Sundry debtor - Shatadi Auctioneers	731,927	-
Less: Allowance for impairment	(189,516,054)	(184,417,083)
	81,426,966	**69,440,423**

Gross balance		
Property rates	263,127,791	251,221,315
Traffic fines	6,716,603	1,914,718
Trade debtors	56,982	717,335
Staff debtors	309,717	4,138
Sundry debtor - Shatadi Auctioneers	731,927	-
	270,943,020	**253,857,506**

Less: Allowance for impairment		
Property rates	(182,966,896)	(183,170,466)
Traffic fines	(6,329,580)	(1,246,617)
Trade debtors	-	-
Staff debtors	-	-
Sundry debtor - Shatadi Auctioneers	(219,578)	-
	(189,516,054)	**(184,417,083)**

Net balance		
Property rates	80,160,895	68,050,849
Traffic fines	387,023	668,101
Trade debtors	56,982	717,335
Staff debtors	309,717	4,138
Sundry debtor - Shatadi Auctioneers	512,349	-
	81,426,966	**69,440,423**

Property rates		
Current (0-30 days)	7,369,221	3,585,471
31 - 60 days	5,459,152	3,504,460
61 - 90 days	3,945,131	3,401,669
> 90 days	246,354,287	240,729,716
Less: Allowance for impairment	(182,966,896)	(183,170,467)
	80,160,895	**68,050,849**

Traffic fines		
Current (0-30 days)	1,703,200	23,386
31 - 60 days	2,162,784	118,441
61 - 90 days	244,687	184,102
> 90 days	2,605,932	1,588,789
Less: Allowance for impairment	(6,329,580)	(1,246,617)
	387,023	**668,101**

Trade debtors		
Current (0-30 days)	56,982	717,335

Figures in Rand	2016	2015

5. Receivables from non-exchange transactions (continued)

Staff debtors		
> 90 days	309,717	4,138
Sundry debtor - Shatadi Auctioneers		
31 - 60 days	731,927	-
Less: Allowance for impairment	(219,578)	-
	512,349	**-**
Total		
Current (0-30 days)	9,129,403	4,326,192
31 - 60 days	8,353,863	3,622,901
61 - 90 days	4,189,818	3,585,771
> 90 days	249,269,936	242,322,643
Less: Allowance for impairment	(189,516,054)	(184,417,084)
	81,426,966	**69,440,423**

Receivables from non-exchange transactions pledged as security

None of the receivables were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The municipality does not hold any collateral as security.

Receivables from non-exchange transactions impaired

As of 30 June 2016, receivables from non-exchange transactions of R270,943,020 (2015: R253,857,506) were impaired and provided for.

The amount of the allowance was R189,516,054 as of 30 June 2016 (2015: R184,417,084).

Summary of receivables by customer classification for receivables from exchange and non-exchange transactions

Consumers		
Current (0 - 30 days)	12,314,673	3,015,273
30 - 60 days	8,616,894	4,060,060
61 - 90 days	3,737,211	4,673,525
> 90 days	282,252,337	319,164,950
Less: Allowance for impairment	(233,483,075)	(255,738,708)
	73,438,040	**75,175,100**
Industrial / Commercial		
Current (0 - 30 days)	2,558,142	997,228
30 - 60 days	845,553	957,725
61 - 90 days	782,277	78,882
> 90 days	28,892,757	31,057,512
Less: Allowance for impairment	(24,498,028)	(25,952,761)
	8,580,701	**7,138,586**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

5. Receivables from non-exchange transactions (continued)

National and provincial government		
Current (0 - 30 days)	2,073,384	3,135,585
30 - 60 days	1,402,598	818,201
61 - 90 days	1,442,149	683,685
> 90 days	32,970,788	20,821,806
	37,888,919	**25,459,277**

Total		
Current (0 - 30 days)	16,946,199	7,148,086
30 - 60 days	10,865,025	5,835,985
61 - 90 days	5,961,637	5,436,093
> 90 days	344,115,882	371,044,268
Less: Allowance for impairment	(257,981,103)	(281,691,469)
	119,907,640	**107,772,963**

Reconcilation of allowance for impairment		
Balance at beginning of the year	(281,691,469)	(249,803,113)
Contributions to provision	-	(31,888,356)
Utilisation of provision	23,710,366	-
	(257,981,103)	**(281,691,469)**

6. Inventories

Consumables	2,405,415	2,137,890
Water	103,630	105,935
	2,509,045	**2,243,825**

6.1 Reconciliation of inventory movement

Opening balance	2,243,824	2,577,294
Purchases	778,057	786,701
Utilised	(512,836)	(1,120,171)
Closing Balance	**2,509,045**	**2,243,824**

Inventory pledged as security

At year-end no inventory has been pledged as security.

7. Investments

Unlisted investments designated at amortised cost		
RMB Momentum - Account number RU 500434741 End date: indefinite	220,547	207,467
Sanlam: Guarantee Capital Fund - Policy number 9921774X7 End date: cover at death	87,071	81,178
Stanlib Classic Investment Plan - Account number IP0006247 End date: indefinite	483,458	501,487
Stanlib Extra Income Fund - Account number IP0006247 End date: indefinite	1,883,233	1,705,321
	2,674,309	**2,495,453**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

7. Investments (continued)

Listed investments at fair value		
Listed shares	785,118	878,474
Total other financial assets	**3,459,427**	**3,373,927**
Non-current assets		
At amortised cost	307,618	288,645
Current assets		
At amoritised cost	2,366,691	2,206,807
Listed investment at fair value	785,118	878,474
	3,151,809	**3,085,281**

Financial assets at fair value

Fair value information

Listed shares are carried at fair value.

The municipality owns 13,242 shares in Sanlam Limited which was trading at R59.29 (2015: R66.34) per share at each reporting period.

None of the financial assets that are fully performing have been renegotiated in the last year.

The municipality has not reclassified any financial assets from cost or amoritised cost to fair value, or from fair value to cost or amoritised cost during the current or prior year.

Credit quality of investments

The credit quality of financial assets are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

8. Operating lease asset

Operating lease asset		
Straight lining of operating lease	882,283	267,545

Operating lease asset represent rentals receivable by municipality for premise/properties rented out. The lease was negotiated for periods ranging from 2 months to 119 months. The rentals escalate on average between 5% and 10% per annum.

Operating lease as lessor		
Within one year	134,182	146,183
In the second to fifth year	748,101	121,362
	882,283	**267,545**

9. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	19,142,500	-	19,142,500	19,142,500	-	19,142,500

9. Investment property (continued)

Reconciliation of investment property - 2016

	Opening balance	Total
Industrial and residential units	19,142,500	19,142,500

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	19,142,500	19,142,500

Pledged as security

At year-end no investment property has been pledged as security.

Details of property

Investment properties mainly consists of industrial and residential units.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2012. The first supplementary valuation was implemented on 1 May 2013. Interim valuations are processed on a quartely basis to take into account the changes in individual property values due to alterations. The valuations were performed by an independent valuer, Sechele Property Developers and Valuers, who are not connected to the municipality. This valuation was based on the market value for existing use.

Interim valuations were performed during the current financial year.

Amounts recognised in surplus and deficit for the year.

	2016	2015
Rental revenue from investment property	2,028,231	718,940

10. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	54,662,500	-	54,662,500	54,662,500	-	54,662,500
Buildings	17,149,909	(4,856,634)	12,293,275	17,149,909	(3,600,619)	13,549,290
Community	37,660,478	(11,111,295)	26,549,183	37,660,478	(9,377,864)	28,282,614
Infrastructure	1,143,457,612	(548,060,046)	595,397,566	1,122,954,033	(515,156,393)	607,797,640
Infrastructure work in progress	246,063,020	-	246,063,020	172,437,619	-	172,437,619
Landfill site	37,827,011	(3,614,198)	34,212,813	14,549,560	(2,679,402)	11,870,158
Other property, plant and equipment	19,747,070	(10,881,642)	8,865,428	20,679,748	(11,406,637)	9,273,111
Total	**1,556,567,600**	**(578,523,815)**	**978,043,785**	**1,440,093,847**	**(542,220,915)**	**897,872,932**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	54,662,500	-	-	-	-	-	54,662,500
Buildings	13,549,290	-	-	-	-	(1,256,015)	12,293,275
Community	28,282,614	-	-	-	-	(1,733,431)	26,549,183
Infrastructure	607,797,640	-	-	20,503,579	-	(32,903,653)	595,397,566
Infrastructure work in progress	172,437,619	117,406,431	-	(43,781,030)	-	-	246,063,020
Landfill site	11,870,158	-	-	23,277,451	-	(934,796)	34,212,813
Other property, plant and equipment	9,273,111	1,007,491	(1,070,548)	-	1,199,055	(1,543,681)	8,865,428
	897,872,932	**118,413,922**	**(1,070,548)**	**-**	**1,199,055**	**(38,371,576)**	**978,043,785**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Correction of prior year	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	54,662,500	-	-	-	-	-	-	-	54,662,500
Buildings	14,213,320	-	-	-	-	-	(664,030)	-	13,549,290
Community	18,407,184	1,500,000	-	-	10,256,317	-	(1,760,004)	(120,883)	28,282,614
Infrastructure	577,822,628	6,575,722	-	-	55,294,959	-	(31,895,669)	-	607,797,640
Infrastructure work in progress	125,117,205	143,367,485	-	(30,495,795)	(65,551,276)	-	-	-	172,437,619
Landfill site	12,597,636	-	-	-	-	-	(727,478)	-	11,870,158
Other property, plant and equipment	12,600,554	3,522,495	(513,939)	(4,568,331)	-	27,365	(833,478)	(961,555)	9,273,111
	815,421,027	**154,965,702**	**(513,939)**	**(35,064,126)**	**-**	**27,365**	**(35,880,659)**	**(1,082,438)**	**897,872,932**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

10. Property, plant and equipment (continued)

Pledged as security

None of the above property, plant and equipment have been pledged as security.

Revaluations
The effective date of the revaluations of land was 30 June 2012. Revaluations were performed by an independent valuer, Sechele Property Developers and Valuers. Sechele Property Developers and Valuers is not connected to the municipality.

These assumptions were based on current market conditions.

Assets subject to finance lease (Net carrying amount)

	2016	2015
IT equipment	1,488,880	1,420,400

Details of property, plant and equipment

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

11. Payables from exchange transactions

	2016	2015
1% social responsibility	6,428,820	5,372,838
Accrual - thirteenth cheque	2,426,534	2,414,736
Consumer deposits	564,700	564,414
Retentions	23,271,152	15,827,078
Other payables	3,725,592	165,918
Trade payables	150,048,760	136,044,287
Income received in advance	10,634,542	15,017,053
Unallocated deposits	1,620,660	1,127,752
VAT payable	1,594,909	5,500,614
Closure cost liability	-	5,886,025
	200,315,669	**187,920,715**

Consumer deposits:
Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid on consumer deposits held.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

12. Finance lease obligation

Minimum lease payments due		
- within one year	545,899	528,095
- in second to fifth year inclusive	463,143	1,049,027
	1,009,042	1,577,122
less: future finance charges	(85,177)	(202,509)
Present value of minimum lease payments	**923,865**	**1,374,613**

Present value of minimum lease payments due		
- within one year	493,012	417,763
- in second to fifth year inclusive	430,853	956,850
	923,865	**1,374,613**

Non-current liabilities	430,853	956,850
Current liabilities	493,012	417,763
	923,865	**1,374,613**

The average lease term is 3 years and the average effective borrowing rate is 9%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms and others escalate. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

Refer to note 10 for the carrying value of assets held under a finance lease.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Finance Management Grant	-	366,219
Expanded Public Work Programme	-	-
Department of Local Government and Traditional Affairs	228,831	228,831
Department of Water and Forestry Affairs	2,071,798	-
Department of Arts and Culture	199,666	199,666
Department of Energy	-	-
Municipal Infrastructure Grant	-	4,140,171
Gert Sibande District Municipality	-	-
Municipal Systems Improvement Grant	-	-
	2,500,295	**4,934,887**

Movement during the year

Balance at the beginning of the year	4,934,887	40,778,375
Additions during the year	129,680,000	137,446,000
Income recognition during the year	(131,541,373)	(151,318,488)
Unspent conditional grant surrended to National Treasury	(573,219)	(21,971,000)
	2,500,295	**4,934,887**

Current liabilities	2,500,295	4,934,887

Figures in Rand	2016	2015

13. Unspent conditional grants and receipts (continued)

Financial Management Grant

Balance unspent at the beginning of the year	366,219	-
Unspent conditional grant surrended to National Treasury	(366,219)	-
Current year receipts	1,600,000	1,600,000
Conditions met - transferred to revenue	(1,600,000)	(1,233,781)
	-	**366,219**

The grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Expanded Public Work Programme

Balance unspent at the beginning of the year	-	34,019
Current year receipts	2,059,000	4,105,000
Conditions met - transferred to revenue	(2,059,000)	(4,139,019)
	-	**-**

The grant is intended to fund bulk, connector and internal infrastructure of water services at a basic level of service.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Department of Local Government and Traditional Affairs

Balance unspent at the beginning of the year	228,832	228,832

The grant is intended for the construction of the ring in Silobela which is funded by the department of Local government and Traditional Affairs.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Department of Water and Forestry Affairs

Balance unspent at the beginning of the year	-	-
Current year receipts	25,000,000	15,000,000
Conditions met - transferred to revenue	(22,928,202)	(15,000,000)
	2,071,798	**-**

The grant is intended to fund bulk, connector and internal infrastructure of water services at a basic level of service.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Department of Arts and Culture

Balance unspent at the beginning of the year	199,666	199,666

The grant is intended to improve the social economic situation.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

13. Unspent conditional grants and receipts (continued)

Department of Energy		
Balance unspent at the beginning of the year	-	-
Current year receipts	6,000,000	10,400,000
Conditions met - transferred to revenue	(6,000,000)	(10,400,000)
	-	-

The grant is intended to fund energy efficient lighting technologies in municipal building, street and traffic lighting infrastructure.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Municipal Infrastructure Grant		
Balance unspent at the beginning of the year	4,140,171	40,315,859
Unspent conditional grant surrended to National Treasury	(207,000)	(21,971,000)
Current year receipts as per DORA	94,091,000	105,407,000
Conditions met - transferred to revenue	(98,024,171)	(119,611,688)
	-	**4,140,171**

The grant is intended to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Gert Sibande District Municipality		
Balance unspent at the beginning of the year	-	-
Current year receipts	-	850,000
Conditions met - transferred to revenue	-	(850,000)
	-	-

The grant is intended to fund the project of the Ekulindeni stadium fencing.

Municipal Systems Improvement Grant		
Balance unspent at the beginning of the year	-	-
Current year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(934,000)
	-	-

The grant is intended to assist the municipality in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and local government turnaround strategy.

The conditions of the grant are stipulated on the Division of Revenue Bill as introduced in the National Assembly (proposed section 76); explanatory summary of Bill published in Government Gazette No. 37337 of 21 February 2014.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

14. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Provision for rehabilitation	22,508,555	2,570,666	25,079,221
Legal proceedings	319,254	-	319,254
Leave	9,299,531	460,167	9,759,698
	32,127,340	**3,030,833**	**35,158,173**

Reconciliation of provisions - 2015

	Opening Balance	Additions	Reversed during the year	Total
Provision for rehabilitation	12,735,748	9,772,807	-	22,508,555
Legal proceedings	225,487	319,254	(225,487)	319,254
Leave	8,809,700	489,831	-	9,299,531
	21,770,935	**10,581,892**	**(225,487)**	**32,127,340**

	2016	2015
Non-current liabilities	25,079,221	22,508,555
Current liabilities	10,078,952	9,618,785
	35,158,173	**32,127,340**

Provision for rehabilitation

The municipality engages in waste disposal operations from residential and business areas within the following area:

- Badplaas landfill
- Carolina (old) landfill
- Ekulindeni landfill
- Elukwatini landfill
- Empuluzi landfill

It is required from the municipality to execute an environmental management programme to restore the landfill sites after its useful life. As such an assessment is required in order to calculate the landfill closure provision liability.

This assessment was performed using the General Landfill Closure Costing Model (GLCCM) that was developed by Mr Seakle Godschalk Pr Sci Nat, GIMFO and Dr Maryna Möhr-Swart, both partners in Environmental & Sustainability Solutions (ESS).

ESS has developed the GLCCM to estimate the final rehabilitation and closure costs for general landfills. The GLCCM is being updated in cooperation with Jones and Wagener Consulting Civil Engineers (Pty) Ltd, a company that is actively involved in rehabilitation and closure of landfill sites. The GLCCM standardises the determination of landfill closure costs between different landfills and for the same landfill over time. The GLCCM is based on the Minimum Requirements for Waste Disposal by Landfill of the Department of Water Affairs (1998), as amended by more recent regulations. The GLCCM provides a reliable best possible estimate of closure costs in terms of paragraph .49 of GRAP 19 or paragraph 36 of IAS 37.

The liability calculated using the GLCCM includes costs associated with:

- Pre-closure planning and approvals (four cost elements)
- Final rehabilitation and closure (seven cost elements)
- 30 years post-closure monitoring (seven costs elements)

Between 2011 and 2015, the GLCCM has been used to conduct 135 closure cost determination for 59 landfills controlled by 24 municipalities/entities spread over six provinces.

The landfill closure provision is calculated as the net present value of future cash flows.

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14. Provisions (continued)

Financial assumptions used

Unit costs
Unit costs for each of the cost elements are obtained annually by means of a commercial quotation.

Consumer price index (CPI)
The CPI is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last quarter amounted to 6.2064%.

Discount rate
GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond ratesto determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

The rate most consistent with the remaining life of the landfills published at the end of the quarter that includes the financial year-end date was used.

- For landfills with an expected remaining life of three years or less, the rate associated with a maximum period of 3 years is used.
- For landfills with an expected remaining life of four of five years, the rate associated with a maximum period of 5 years is used.
- For landfills with an expected remaining life of more than five years, the rate associated with a maximum period of 10 years is used.

Key financial assumptions used	For Carolina (old) landfill	For Elukwatini, Badplaas, Ekulindeni and Empuluzi landfills
CPI	6.2064 %	6.2064 %
Discount rate	7.9564 %	8.4564 %
Net effective discount rate	1.7500 %	2.2500 %

Provision for legal proceedings

Machado Engineering and Projects CC - claim against the municipality for monies that are due to Machado Engineering. Projects CC for services that they rendered to the municipality amounting to R171,219.
Sifiso Hlatshwayo - claim against the municipality for damages to motor vehicles amounting to R148,035.

15. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

Medical scheme arrangements
The municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member’s death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

15. Employee benefit obligations (continued)

Contribution rate structure
Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy arrangements
There were no in-service members who are eligible for the post-retirement benefit.

Pensioners that are currently receiving post-employment retirement benefits do not match the SALGA policy in terms of the subsidy percentage. Therefore, it was decided that the current pensioners will be valued based on the actual subsidy that they are currently receiving, which is either a 70% or 100% subsidy of their total monthly medical aid contribution (this is based on the data provided). In addition, the subsidy payable is not limited to a monthly maximum amount per person for pensioners.

For the reason listed above, the increase in subsidy cap is not applicable.

The amounts recognised in the statement of financial position are as follows:

	2016	2015
Carrying value		
Present value of the defined benefit obligation - wholly unfunded	(10,338,000)	(10,865,000)

Changes in the present value of the defined benefit obligation are as follows:

	2016	2015
Opening balance	10,865,000	11,243,000
Service cost	-	14,000
Interest cost	960,000	974,000
Benefits paid	(740,193)	(703,413)
Actuarial (gains) losses	(746,807)	(662,587)
	10,338,000	**10,865,000**

Net expense of the defined benefit obligation recognised in the statement of financial performance

	2016	2015
Current service cost	-	14,000
Interest cost	960,000	974,000
Actuarial (gains) losses	(746,807)	(662,857)
	213,193	**325,143**

Key assumptions used

Assumptions used at the reporting date (2016 and 2015):

Discount rate:	Yield curve
CPI (Consumer price inflation):	Difference between nominal and yield curves
Medical aid contribution inflation:	CPI+1%
Net effective discount rate:	Yield curve based

Discount Rate
GRAP 25 defines the determination of the Discount rate assumption to be used as follows: “The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.”

We used the nominal and real zero curves as at 30 June 2016 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period.

15. Employee benefit obligations (continued)

Medical Aid Inflation
The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Mortality rates
Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and dependants
We assumed that the marital status of members who are currently married will remain the same up to retirement. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement.

Other assumptions

The increase of 1% p.a. change in the medical aid inflation assumption is as follows:	One percentage point increase	Current valuation percentage	One percentage point decrease
Defined benefit obligation	11,321,000	10,338,000	9,476,000
Interest cost	1,087,000	990,000	904,000
	12,408,000	**11,328,000**	**10,380,000**

The liability amounts for the current annual reporting period and previous three annual reporting periods are as follows:

	2016	2015	2014	2013
Present value of obligation	10,338,000	10,865,000	11,243,000	10,988,000

16. Long service award accrual

As per government gazette an employee shall qualify for long service rewards in terms of leave days credits for the various periods of continuous service completed at the same employer as follows:
- After 10 years of service - 10 working days
- After 15 years of service - 20 working days
- After 20 years of service - 30 working days
- After 25 years of service - 30 working days
- After 30 years of service - 30 working days
- After 35 years of service - 30 working days
- After 40 years of service - 30 working days
- After 45 years of service - 30 working days

The leave mentioned may be wholly or partially converted on the date on which an employee qualified or at any stage thereafter.

Long service benefits are awarded in the form of a number of leave days awarded once the employee completes a certain number of years in service.

Valuation of assets
The long service leave award liability of the municipality is unfunded. No dedicated assets had been set aside to meet this liability.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

16. Long service award accrual (continued)

Valuation of assets
Carrying value

	2016	2015
Present value	7,423,000	6,092,000

Changes in present value

	2016	2015
Opening balance	6,092,000	4,031,000
Current service cost	669,000	513,000
Interest cost	576,000	327,000
Benefits paid	(420,711)	(266,309)
Actuarial loss/(gain)	506,711	1,487,309
	7,423,000	**6,092,000**

Net expense recognised in the statement of financial performance

	2016	2015
Current service cost	669,000	513,000
Interest cost	576,000	327,000
Actuarial loss/(gain)	506,711	1,487,309
	1,751,711	**2,327,309**

Key assumptions (2016 and 2015)

Discount rate:	Yield curve
CPI (Consumer price inflation):	Difference between nominal and real yield curve
Normal salary increase rate:	Equal to CPI + 1%
Net effective discount rate:	Yield curve based

The effect of 1% p.a. change in the normal salary inflation assumption is as follow:	One percentage point increase	Current valuation percentage	One percentage point decrease
Total accrued liability	8,012,000	7,423,000	6,897,000
Current service cost	869,000	790,000	721,000
Interest cost	817,000	755,000	699,000
	9,698,000	**8,968,000**	**8,317,000**

The cost of the long service awards is dependant on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the long service awards liability.

The interest cost is based on the discount rate assumption for the current valuation which is based on one point on the curve.

The amounts for the current annual reporting period and previous reporting period:

	2016	2015
Present value of obligation	7,423,000	6,092,000

17. Revaluation reserve

Valuations on land and buildings are perfomed every four years. The last general valuation came into effect on 1 July 2012. Revaluations were performed by an independant valuer, Sechele Property Developers and Valuers. Sechele Property Developers and Valuers are not connected to the municipality.

The assumptions were based on current market conditions.

	2016	2015
Opening balance	24,046,763	24,046,763

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

18. Revenue

Government grants and subsidies	350,869,667	341,138,488
Service charges	35,144,258	33,933,950
Property rates	47,833,898	37,305,202
Interest received - consumers	24,484,144	19,925,640
Donations	3,729,658	9,153,570
Licences and permits	1,944,052	2,336,519
Fines	5,213,955	1,937,741
Interest received - investment	2,068,800	1,765,792
Administration and management fees received	1,347,507	965,539
Rental income	2,642,970	820,797
Gain on disposal of assets	-	714,628
	475,278,909	**449,997,866**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	35,144,258	33,933,950
Interest received - consumers	24,484,144	19,925,640
Licences and permits	1,944,052	2,336,519
Interest received - investment	2,068,800	1,765,792
Other income	1,347,507	965,539
Rental income	2,642,970	820,797
Gain on disposal of assets	-	714,628
	67,631,731	**60,462,865**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	47,833,898	37,305,202
Transfer revenue		
Government grants and subsidies	350,869,667	341,138,488
Donations	3,729,658	9,153,570
Fines	5,213,955	1,937,741
	407,647,178	**389,535,001**

19. Service charges

Sale of electricity	17,700,069	20,068,198
Sewerage and sanitation charges	6,433,651	5,646,949
Sale of water	4,993,911	2,968,263
Refuse removal	6,016,627	5,250,540
	35,144,258	**33,933,950**

20. Rental income

Rental of facilities	2,642,970	820,797

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

21. Interest received - consumers

Interest - consumers	24,484,144	19,925,640

22. Interest received - investments

Interest revenue		
Unlisted investments at amortised cost	2,068,800	1,765,792

23. Licences and permits

Licences	1,036,058	1,272,287
Traffic	899,536	1,064,232
Business applications	8,458	-
	1,944,052	**2,336,519**

Licencing Function was transferred to the Department of Community Safety, Security & Liaison effective from the 01 April 2016.

24. Other income

Building plan fees	155,271	195,413
Burial fees	82,548	72,737
Certificate clearance	6,207	8,157
Commission received	-	42,220
Connection services	117,489	156,480
Fire brigade fees	55,549	38,277
Insurance claims	197,900	1,063,197
Other income	-	(348,569)
Sale of stands	160,692	48,098
Sundry income	188,497	107,733
Tempering of meters	73,947	53,142
Tender deposits	309,407	243,282
	1,347,507	**1,680,167**

25. Property rates

Rates received

Residential	13,097,360	10,895,092
Commercial	34,186,739	26,410,110
Government	549,799	-
	47,833,898	**37,305,202**

Valuations

Residential	764,859,000	729,927,800
Commercial	23,480,500	131,058,375
State	32,053,400	303,391,400
Municipal	8,251,370	8,251,370
Agriculture	1,924,765,070	1,293,547,500
Other	39,938,630	285,015,900
	2,793,347,970	**2,751,192,345**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

25. Property rates (continued)

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2012. The first supplementary valuation was implemented on 1 May 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The valuations were performed by an independent valuer, Sechele property developers and Valuers, who are not connected to the municipality.

Interim valuations performed in the current year.

The new general valuation will be implemented on 01 July 2016.

26. Government grants and subsidies

Please also refer note 13.

	2016	2015
Equitable Share	219,137,219	188,970,000
Municipal Systems Improvements Grant	930,000	934,000
	220,067,219	189,904,000
Capital grants		
Municipal Infrastructure Grant	98,024,171	119,611,688
Department of Water and Forestry Affairs	22,928,202	15,000,000
Department of Energy	6,000,000	10,400,000
Expanded Public Works Programme	2,059,000	4,139,019
Finance Management Grant	1,600,000	1,233,781
Gert Sibande District Municipality	-	850,000
LG SETA	191,075	-
	130,802,448	151,234,488
	350,869,667	**341,138,488**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. Please refer to note 13.

27. Donations

	2016	2015
Donations	3,729,658	9,153,570

Gert Sibande District Municipality donated infrastructure assets amounting to R3,729,658 (2015: R9,153,570) during the financial year.

28. Fines

	2016	2015
Traffic fines	5,213,955	1,937,741

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

29. Employee related costs

Acting allowances	1,055,291	1,315,159
Actuarial (gain)/loss	(240,096)	824,723
Bargaining council	39,281	34,280
Basic	83,856,348	70,971,301
Bonus	6,224,788	5,335,222
Housing benefits and allowances	1,642,900	796,300
Interest cost on acturarial valuations	2,205,000	1,814,000
Leave pay accrual	460,167	489,831
Medical aid	5,774,695	5,530,287
Overtime payments	2,981,653	6,190,296
Pension fund	15,471,692	13,472,482
Provident fund	407,579	244,597
Restday allowance	558,162	-
SDL	1,065,758	928,594
Service cost on acturarial valuations	-	14,000
Standby allowances	3,759,606	2,095,560
Telephone allowances	4,800	4,800
Travel allowances	8,948,417	6,434,746
UIF	701,762	635,275
	134,917,803	**117,131,453**

Remuneration of Municipal Manager: Mpila VN

Annual remuneration	903,292	856,490
Travel allowance	84,000	84,000
Contributions to UIF, medical and pension funds	254,920	242,657
	1,242,212	**1,183,147**

Remuneration of Chief Finance Officer: Nhlabathi MJ

Annual remuneration	738,812	700,805
Travel allowance	144,000	144,000
Contributions to UIF, medical and pension funds	67,892	59,589
	950,704	**904,394**

Remuneration of Director: Technical Services: Modimogale MD

Annual remuneration	800,045	730,251
Travel allowance	84,000	114,000
Contributions to UIF, medical and pension funds	65,407	60,166
	949,452	**904,417**

Remuneration of Director: Corporate Services: Mndebele SF

Annual remuneration	699,923	509,544
Travel allowance	78,000	65,000
Contributions to UIF, medical and pension funds	163,285	121,224
Leave payout	-	225,505
Performance bonus	41,897	-
	983,105	**921,273**

Mr SF Mndebele's contract ended effective from 30 October 2014, however he was reappointed 05 January 2015.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

29. Employee related costs (continued)

Remuneration of Director: Corporate Services: Shabangu JW

Annual remuneration	-	67,710
Travel allowance	-	18,154
Acting allowance	-	50,418
Contributions to UIF, medical and pension funds	-	21,909
	-	**158,191**

Mr JW Shabangu was appointed as the Acting Director - Corporate Services for period of November and December 2014 as the position was vacant from 30 October 2014 to 05 January 2015.

Remuneration of Director: Public Safety: Makgopa KB

Annual remuneration	690,085	656,870
Travel allowance	52,728	52,728
Contributions to UIF, medical and pension funds	205,792	193,917
	948,605	**903,515**

Remuneration of Director: Community Services: Mkhwanazi ZF

Annual remuneration	760,279	719,870
Travel allowance	117,600	117,600
Acting allowance	-	26,642
Contributions to UIF, medical and pension funds	71,682	67,220
	949,561	**931,332**

Remuneration of Director: Planning and Economic Development: Lukhele TA

Annual remuneration	803,303	761,746
Travel allowance	60,000	60,000
Contributions to UIF, medical and pension funds	86,320	82,740
	949,623	**904,486**

30. Remuneration of councillors

Executive Mayor	785,164	743,472
Speaker	632,365	598,991
Chief Whip	594,098	562,879
Mayoral committee members	1,782,465	1,702,343
Councillors	11,234,552	10,505,118
	15,028,644	**14,112,803**

In-kind benefits

The Executive Mayor is provided with a vehicle, driver, secretary, manager and personal assistant at the cost of the council.

The Chief Whip is provided with a secretary and personal assistant.

The Speaker is provided with secretarial support, a manager and personal assistant.

All the full time Mayoral committee members are provided with one secretary.

Members of municipal council should be remunerated within the upper limits as determined by the Department of Cooperative Governance and Traditional Affairs. Any deviations are disclosed as irregular expenditure.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

30. Remuneration of councillors (continued)

Remuneration of Councillors:

The remuneration of the political office bearers and councillors are within the upper limits as determined by the framework envisaged section 219 of the Constitution.

2016 **Executive Mayor**	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Shiba BP	471,941	189,503	20,868	96,568	6,284	785,164

Speaker	Basic	Travel allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Nkosi SM	370,322	151,603	20,868	84,486	5,086	632,365

Chief Whip	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Nkosi DP	372,217	142,128	20,868	54,165	4,720	594,098

Mayoral Committee	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	SDL	Total
Mngomezulu MW	338,325	142,128	20,868	88,058	4,804	594,183
Mnisi NM	356,913	142,128	20,868	69,470	4,758	594,137
Thabethe QG	351,838	142,128	20,868	74,545	4,770	594,149
	1,047,076	**426,384**	**62,604**	**232,073**	**14,332**	**1,782,469**

2016 **Councillors**	Annual remuneration	Travel allowance	Cellphone allowance	Pension and Medical Aid	SDL	Total
Cindi NR	149,642	57,120	20,868	21,719	2,022	251,371
Dludlu ZM	149,642	57,120	20,868	21,719	2,022	251,371
Hlatswayo MG	149,642	57,120	20,868	21,719	2,022	251,371
Lubede EJ	149,642	57,120	20,868	21,719	2,022	251,371
Maduna ME	116,630	57,120	20,868	54,731	2,104	251,453
Makene J	192,040	73,304	20,868	27,873	2,536	316,621
Makhubelo NV	149,642	57,120	20,868	21,719	2,022	251,371
Malaza STQ	149,642	57,120	20,868	21,719	2,022	251,371
Masuku BM	149,642	57,120	20,868	21,719	2,022	251,371
Masuku LL	149,642	57,120	20,868	21,719	2,104	251,453
Mayaba LM	88,785	33,320	12,173	11,176	1,203	146,657
Mbhele JS	149,642	57,120	20,868	21,719	2,022	251,371
Mdhluli NI	129,263	57,120	20,868	42,098	2,073	251,422
Mhlanga PP	149,642	57,120	20,868	21,719	2,022	251,371
Mkhabele EB	149,642	57,120	20,868	21,719	2,022	251,371
Mnisi N	192,040	73,304	20,868	27,873	2,536	316,621
Motaung RM	149,642	57,120	20,868	21,719	2,104	251,453
Motha TW	149,642	57,120	20,868	21,719	2,022	251,371
Mthombeni SF	136,851	57,120	20,868	34,510	2,054	251,403
Neethling ML	171,361	57,120	20,868	-	2,379	251,728
Ngubeni A	149,642	57,120	20,868	21,719	2,022	251,371
Nkabinde NJ	127,398	57,120	20,868	43,962	2,077	251,425
Nkosi AD	149,642	57,120	20,868	21,719	2,022	251,371
Nkosi FE	149,642	57,120	20,868	21,719	2,022	251,371

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

30. Remuneration of councillors (continued)

Nkosi GJ	135,579	57,120	20,868	35,782	2,057	251,406
Nkosi JS	149,642	57,120	20,868	21,719	2,022	251,371
Nkosi MH	149,642	57,120	20,868	21,719	2,022	251,371
Nkosi MJ	149,642	57,120	20,868	21,719	2,022	251,371
Nkosi NM	149,642	57,120	20,868	21,719	2,022	251,371
Nkosi SJ	192,040	73,304	20,868	27,873	2,536	316,621
Nkosi SZ	192,040	73,304	20,868	27,873	2,536	316,621
Nkosi VL	126,769	57,120	20,868	44,592	2,079	251,428
Ntuli FJ	149,642	57,120	20,868	21,719	2,022	251,371
Phakathi FDM	149,642	57,120	20,868	21,719	2,022	251,371
Shabangu LD	171,361	57,120	20,868	-	2,379	251,728
Sikhakhane NB	149,642	57,120	20,868	21,719	2,022	251,371
Simelani JD	149,642	57,120	20,868	21,719	2,022	251,371
Soko JP	111,664	57,120	20,868	59,697	2,117	251,466
Steenkamp ML	149,642	57,120	20,868	21,719	2,022	251,371
Thomo NG	149,642	57,120	20,868	21,719	2,022	251,371
Vilakazi RG	271,017	103,890	20,868	40,653	3,507	439,935
Vilakazi VV	46,858	17,962	6,956	7,029	647	79,452
Zulu TW	149,642	57,120	20,868	21,719	2,022	251,371
Zwane TE	149,642	57,120	20,868	21,719	2,022	251,371
	6,591,672	**2,561,828**	**895,585**	**1,093,854**	**91,600**	**11,234,539**

2015 **Executive Mayor**	Basic	Travel allowance	Cellphone allowance	Pension and Medical Aid	SDL	Total
Shiba BP	447,465	179,624	20,868	89,471	6,045	743,473

Speaker	Basic	Travel allowance	Cellphone allowance	Pension and Medical Aid	SDL	Total
Nkosi SM	350,403	143,699	20,868	79,126	4,895	598,991

Chief Whip	Basic	Travel allowance	Cellphone allowance	Pension and Medical Aid	SDL	Total
Nkosi DP	352,267	134,718	20,868	50,478	4,548	562,879

Mayoral Committee	Basic	Travel allowance	Cellphone allowance	Pension and Medical aid	SDL	Total
Mngomezulu MW	321,332	139,257	20,868	81,333	4,654	567,444
Mnisi NM	337,756	139,257	20,868	64,952	4,617	567,450
Thabethe QG	332,944	139,257	20,868	69,751	4,628	567,448
	992,032	**417,771**	**62,604**	**216,036**	**13,899**	**1,702,342**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

30. Remuneration of councillors (continued)

2015 Councillors	Basic	Travel allowance	Cellphone allowance	Pension and medical aid	SDL	Total
Cindi NR	140,907	53,887	20,868	20,191	1,945	237,798
Dludlu ZM	140,907	53,887	20,868	20,191	1,945	237,798
Hlatshwayno MG	104,554	37,196	14,329	6,929	1,447	164,455
Lubede EJ	140,907	53,887	20,868	20,191	1,945	237,798
Maduna ME	111,041	53,887	20,868	49,979	2,012	237,787
Makene J	164,234	62,793	20,868	23,564	2,231	273,690
Makhubelo NV	140,906	53,887	20,868	20,191	1,945	237,797
Malaza STQ	140,575	53,887	20,868	20,191	1,945	237,466
Masuku BM	140,906	53,887	20,868	20,191	1,945	237,797
Masuku LL	35,144	13,472	-	5,272	582	54,470
Mbhele JS	140,906	53,887	20,868	20,191	1,945	237,797
Mdhluli NI	121,583	53,887	20,868	39,465	1,988	237,791
Mhlanga PP	140,907	53,887	20,868	20,191	1,945	237,798
Mkhabela EB	140,906	53,887	20,868	20,191	1,945	237,797
Mnisi N	164,234	62,793	20,868	23,564	2,231	273,690
Motaung RM	35,144	13,472	-	5,272	582	54,470
Motha JT	88,412	33,891	13,912	13,262	1,228	150,705
Motha TW	140,906	53,887	20,868	20,191	1,945	237,797
Mthombeni SF	132,690	53,887	20,868	28,372	1,962	237,779
Neethling NE	161,661	53,887	20,868	-	2,256	238,672
Ngubeni A	140,907	53,887	20,868	20,191	1,945	237,798
Nkabinde NJ	120,701	53,887	20,868	40,344	1,990	237,790
Nkosi AD	140,906	53,887	20,868	20,191	1,945	237,797
Nkosi FE	140,907	53,887	20,868	20,191	1,945	237,798
Nkosi GJ	140,907	53,887	20,868	20,191	1,945	237,798
Nkosi JS	140,906	53,887	20,868	20,191	1,945	237,797
Nkosi MH	140,575	53,887	20,868	20,191	1,945	237,466
Nkosi MJ	140,906	53,887	20,868	20,191	1,945	237,797
Nkosi MN	140,907	53,887	20,868	20,191	1,945	237,798
Nkosi SJ	164,234	62,793	20,868	23,564	2,231	273,690
Nkosi SZ	164,234	62,793	20,868	23,564	2,231	273,690
Nkosi VL	120,212	53,887	20,868	40,831	1,991	237,789
Ntuli FJ	140,906	53,887	20,868	20,191	1,945	237,797
Phakathi FDM	140,906	53,887	20,868	20,191	1,945	237,797
Shabangu LD	162,042	53,887	20,868	-	2,256	239,053
Shabangu VS	71,517	29,654	5,217	17,448	1,018	124,854
Sikhakhane NB	140,906	53,887	20,868	20,191	1,945	237,797
Simelani JD	140,906	53,887	20,868	20,191	1,945	237,797
Soko JP	107,444	53,887	20,868	53,967	2,025	238,191
Steenkamp ML	140,906	53,887	20,868	20,191	1,945	237,797
Thomo NG	140,906	53,887	20,868	20,191	1,945	237,797
Vilakazi J	77,360	29,654	12,173	11,604	1,075	131,866
Vilakazi RG	250,657	95,799	20,868	35,192	3,298	405,814
Vilakazi VV	140,575	53,887	20,868	20,191	1,945	237,466
Zulu TW	140,575	53,887	20,868	20,191	1,945	237,466
Zwane TE	140,575	53,887	20,868	20,191	1,945	237,466
	6,159,913	**2,390,355**	**880,351**	**987,350**	**87,149**	**10,505,118**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

31. Depreciation

Infrastructure	32,903,653	31,895,669
Community	1,733,431	1,880,887
Landfill site	934,792	727,478
Property, plant and equipment	1,256,015	664,030
Other property, plant and equipment	1,543,682	1,795,033
	38,371,573	**36,963,097**

32. Finance costs

Rehabilitation of landfill sites	2,570,666	9,772,807
Trade and other payables	165,926	5,062,674
Finance leases	114,122	19,680
	2,850,714	**14,855,161**

33. Rehabilitation provision movement

Landfill sites	(5,886,025)	3,275,313

34. Debt impairment

Debt impairment	46,423,484	32,270,976

35. Repairs and maintenance

Infrastructure assets	18,464,087	27,917,116
Office, furniture, equipment and tools	-	1,597,171
	18,464,087	**29,514,287**

36. Bulk purchases

Electricity	56,654,932	54,096,805
Water	5,239	73,915
	56,660,171	**54,170,720**

Electricity distribution losses are based on units purchased per invoices received from Eskom and units sold per prepaid reports and debtors system. It was determined to be R28,833,525 (2015: R17,252,387) and 22,084,859.24 units (2015: 23,559,407.35 units) for the financial year ending 30 June 2016.

Water distribution losses are estimated per scheme for the financial year ended 2016. Carolina and Badplaas are approximately 5-10% due to leakages as the plants are closely monitored. For the rest of the plants listed below the losses ranges between 20-30%

- Eerstehoek
- Ekulindeni
- Empuluzi
- Methula
- Lusushwana

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

37. Contracted services

Security services	19,735,362	15,415,101
Consultants	17,099,387	14,209,778
Operational contractors	4,661,444	5,718,177
Standby-contractors	221,000	4,546
Other contractors	3,562,977	191,300
	45,280,170	**35,538,902**

38. Loss on disposal of assets

Property, plant and equipment	336,761	-

39. General expenses

Advertising	146,075	237,961
Audit commitee fees	263,582	395,248
Bank charges	338,657	316,738
Capacity building	50,700	150,348
Chemicals	5,882,163	7,086,839
Committee costs	2,805,421	2,698,658
Consumables (recoveries) cost	(122,374)	505,153
Convention bureau	316,372	1,974,683
Entertainment	4,224	65,033
External audit fees	3,818,065	4,042,916
Hostel charges	728,648	712,687
Insurance	1,376,406	2,390,762
Interview costs	4,880	27,348
Lease rentals on operating lease	904,981	784,597
Legal expenses	1,630,170	2,066,926
Licence fees	1,706,181	1,585,616
Local economic development	299,286	145,750
Loss on disposal of assets	-	141,608
Magazines, books and periodicals	1,112,410	1,239,537
Motor vehicle expenses	5,795,721	7,398,898
Other expenses	5,948,004	2,451,010
Postage and courier	1,633,653	1,579,211
Printing and stationery	651,086	743,036
Spatial planning	153,916	176,410
Staff welfare	-	32,350
Stock adjustment: Water	2,305	-
Subscriptions and publications	808,078	713,482
Telephone and fax	1,860,978	2,146,238
Transport and freight	2,746,819	4,406,499
Training	151,248	2,597,350
Uniforms and overalls	1,386,197	597,770
VIP toilets not capitalised	-	1,241,162
	42,403,852	**50,651,824**

40. Fair value adjustments

Investments		
• Investments	87,941	53,164

41. Auditors' remuneration

Fees	3,818,065	4,042,916

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

42. Cash generated from operations

Surplus	80,515,616	80,998,026
Adjustments for:		
Depreciation and amortisation	38,371,573	36,929,976
Gain (loss) on sale of assets and liabilities	336,761	(714,628)
Fair value adjustments	(87,941)	(53,164)
Finance costs - finance leases	114,122	19,680
Rehabilitation provision movement	(5,886,025)	3,275,313
Allowance for debt impairment	46,423,484	32,270,976
Movements in retirement benefit assets and liabilities	-	(378,000)
Movements in provisions	1,409,772	7,081,092
Acturial loss on long service	506,711	2,061,000
Donations	(3,975,085)	(9,153,570)
Acturial gain on post retirement	(746,807)	-
Interest on long service award	1,245,000	-
Interest on post retirement medical benefit	960,000	-
Changes in working capital:		
Inventories	(265,220)	333,469
Receivables from exchange transactions	(11,986,543)	(20,016,784)
Receivables from non-exchange transactions	(12,134,678)	(34,117,490)
Payables from exchange transactions	(18,280,977)	70,539,529
VAT	(4,123,763)	(4,027,439)
Unspent conditional grants and receipts	2,434,592	(35,843,488)
Finance lease	75,249	-
Operating leases assets	(614,739)	(5,680)
Investment	(78,009)	-
	114,213,093	**129,198,818**

43. Commitments

Authorised capital expenditure

Authorised operational expenditure

Already contracted for but not provided for		
• Infrastructure	84,827,410	215,616,597
• Operational capital	70,592,007	25,590,524
	155,419,417	**241,207,121**

This committed expenditure relates to infrastructure and community assets and will be financed by accumulated surpluses and extended funding.

44. Contingencies

Litigations in the process against the Municipality relating to civil claims include the following:		
Grand Valley Estates (Pty) Ltd	10,000,000	26,680,000
Lebea & Maduna	1,114,433	1,114,433
Germiston West CC	150,000	150,000
Gelani Properties	60,000	-
IFJ Properties	1,500,000	-
JM Mathebula	350,000	350,000
Lerato Masilo	500,000	137,813
Slindile Mabuyakhulu	300,000	300,000
Sobek Engineering	5,693,769	5,693,769
I @ consulting	2,750,131	-
	22,418,333	**34,426,015**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

44. Contingencies (continued)

Grand Valley Estates (Pty) Ltd
This claim stems from the dispute over the farms around Badplaas. The plaintiffs are claiming loss of future income and goodwill while on the other hand the farms are a subject of claim in the Land Claims Commission. The Municipality is cited as party for failure to comply with various forms of legislation. The summons has been served to the Municipality on the 6th of July 2010. The probability of success in this matter is less than 50%. The potential liability is estimated at R10,000,000.

Lebea and Maduna Consulting Engineering
In this matter plaintiff issued summons against the Municipality for a claim in the amount of R1,114,433 of which the plaintiff alleges to be due to it for services rendered to the Municipality. The probability of success in this matter is less than 50%.

Germiston West CC
An order was granted against the Municipality to take steps against (Cambridge Dlamini) and other occupiers of the property for an interdict to stop the building activities on this property and to proceed with the eviction of the occupiers on the property. The potential liability is estimated at R150,000.

Gelani Properties
The Municipality is claiming the land that belongs to them from Gelani Properties, Vos Viljoen Becker Incorporated. This matter is still pending due to the fact that the Municipality must appoint a land surveyor to rezone the land. The potential liability is estimated at R60,000.

JM Mathebula
The matter emanated from the claim that was brought by Mr. Mathebula against the Municipality after electricity disconnection at his business premises and as a result he alleges he has suffered a financial loss. The probability of the claim being successful is less than 50%. The potential liability is estimated at R350,000.

Lerato Masilo
The action against the Municipality is for damages to the sum of R137,813 The plaintiff alleges that on 19 April 2014 the Municipality failed to maintain the Elukwatini main road and as a result her car drove into a large pot hole and was severely damaged. The potential liability is estimated at R500,000.

Silindile Mabuyakhulu
Miss Silindile Mabuyankulu is demanding R300,000. for damages emanating from a disciplinary hearing. The Municipality is disputing the claim as unfounded and invalid. The probability of success in this matter is less than 50%.

I @ consulting
On this matter the notice of intent to defend is drafted, Attorneys are awaiting the advocates confirmation on the consultation at the court. The potancial liability is estimated at R2,750,131.

45. Related parties

Relationships	
Accounting Officer	Refer to note 29
Key management	Refer to note 29
Executive Mayor	Refer to note 30
Speaker	Refer to note 30
Chief Whip	Refer to note 30
Mayoral Committee	Refer to note 30
Councillors	Refer to note 30

No transactions were entered into with related parties to the municipalitues and close family members during the year.

Notes to the Annual Financial Statements

Figures in Rand

46. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Cash and cash equivalents	398,284	3,932,975
Receivables from exchange transactions	38,480,674	38,332,539
Receivables from non-exchange transactions	81,426,966	69,440,423
Investments	3,459,427	3,085,281

47. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

48. Fruitless and wasteful expenditure

Opening balance	7,788,324	2,762,810
Eskom - interest	4,350,241	3,708,025
SARS	1,865,426	1,138,746
Auditor-General of South Africa	84,352	165,322
Telkom	2,377	5,478
MCPF	8,399	-
SALAPF	-	4,679
Sanlam	14,282	2,773
NFMW	690	491
MEPF	29,644	-
MGF	2,860	-
	14,146,595	**7,788,324**

The total fruitless and wasteful expenditure was referred to council for further investigation.

49. Irregular expenditure

Opening balance	197,715,521	139,883,766
Add: Irregular Expenditure - current year	63,934,344	57,831,755
	261,649,865	**197,715,521**

49. Irregular expenditure (continued)

Details of irregular expenditure – 2016

	Disciplinary steps taken/criminal proceedings	
Advert for less than the prescribed period	None	4,794,922
Bid adjudication committee not complying with Regulation 29(2)	None	20,366,538
Evaluated bids using the incorrect preference point system	None	153,751
Procurement process not followed	None	14,083,522
Not advertised on CIDB	None	12,426,469
Local content not implemented	None	12,109,142
		63,934,344

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to SALGA

Opening balance	5,682	25,373
Current year fees	78,561	68,609
Amount paid - current year	(64,271)	(62,928)
Amount paid - previous years	(5,682)	(25,373)
	14,290	**5,682**

Audit fees

Opening balance	2,721,429	2,166,948
Current year fees	3,830,664	2,489,913
Amount paid - current year	(1,033,878)	(1,935,432)
Amount paid - previous years	(2,382,154)	-
	3,136,061	**2,721,429**

PAYE and UIF

Opening balance	1,494,845	12,347,603
Current year	18,784,923	15,534,720
Amount paid - current year	(8,353,062)	(14,039,875)
Amount paid - previous years	(1,494,845)	(12,347,603)
	10,431,861	**1,494,845**

Pension and medical aid deductions

Opening balance	2,669,566	(10,231,074)
Current year fees	36,573,396	31,785,445
Amount paid - current year	(27,766,034)	(29,115,879)
Amount received / (paid) - previous years	(2,669,566)	10,231,074
	8,807,362	**2,669,566**

Notes to the Annual Financial Statements

50. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	9,389,105	5,265,342

VAT output payables and VAT input receivables are shown in note 52.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Shabangu, LD	13,650	48,205	61,855
Malaza, STQ	301	1,284	1,585
Mayaba, LM	332	322	654
	14,283	**49,811**	**64,094**

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Shabangu, LD	616	54,501	55,117
Malaza, STQ	-	1,970	1,970
	616	**56,471**	**57,087**

Supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Council. The expenses incurred as listed hereunder have been condoned.

Deviation		
Sole service provider	133,339	169,865
Emergency	857,600	671,635
Impractical	229,297	-
Ratification	859,652	-
	2,079,888	**841,500**

Notes to the Annual Financial Statements

51. Budget differences

Material differences between budget and actual amounts

Revenue from exchange transactions:

51.1 Service charges
Service charges decreases relating to electricity experienced as a result of commercial and distribution losses incurred. Water revenue service charge attributable to distribution losses incurred such as water leaks and ageing pipeline infrastructure

51.2 Rental income
Due to operating leases that were reviewed and increased

51.3 Interest received - consumers
Increase in debtors resulted in higher interest earned on outstanding debtors

51.4 Licence and permits
This function was transferred to the Department of Community Safety Security and Liaison

51.5 Other income
District constructed assets donated to the Municipality

51.6 Interest received - investment
Surplus cash not needed immediately was invested in short term investments, however the interest earned was less than the long term investment

51.7 Property rates
Supplementary valuation roll increased the property valuation

51.8 Government grants and subsidies
Capital conditional grants (MIG,WSOS,INEP) recognised as revenue after the conditions of the grants were met

51.9 Donations
Donated assets are normally not budgeted for, assets donated by the Gert Sibande District Municipality

51.10 Fines
The implementation of iGrap resulted in higher revenue generated based on the number of tickets issued

51.11 Employee related costs
As a result of an increase in overtime, stand allowances, medical aid, post retirement benefits and acting allowances, additionally, some posts were upgraded

51.12 Remuneration of councillors
Vacant positions not filled

51.13 Depreciation and amortisation
The review of the useful lives of assets resulted in a lower depreciation than anticipated

51.14 Rehabilitation costs
Ekulindeni dumping was not accounted for in the previous years

51.15 Finance costs
Interest was paid on outstanding invoices and provisions

51.16 Allowance for debt impairment
Increase in debtors resulted in increase in provision in terms of GRAP

51.17 Repairs and maintenance
Old infrastracture that was transferred to the Municipality by the Department of Water Affairs

51. Budget differences (continued)

51.18 Bulk purchases
High demand in peak seasons which exceeded NMD

51.19 Contracted services
Service providers appointed as needed, on a risk basis, and payments done based on the collection rate

51.20 General expenses
The Municipality implemented cost curtailments strategies to focus on basic services

51.21 Loss on disposal of assets
Redundant assets identified and removed during the year under review

51.22 Inventories
Additional consumable inventory items were acquired and not fully utulised during the period under review

51.23 Investments
Cash not needed immediately was invested in short term investment

51.24 Operating lease asset
Management oversight during the budget process

51.25 Receivables from non-exchange transactions
The receivables from both the exchange and non-exchange were budgeted under one line item on the statement of financial position

51.26 VAT receivable
Management oversight during the budget process

51.27 Receivables from exchange transactions
The receivables increased on monthly basis Municipality unable to fully implement the Credit Control and Debt Collection Policy in all areas

51.28 Cash and cash equivalents
Cash not needed immediately was invested in short term investment

51.29 Investment property
It was an oversight from the municipality that the investment property will increase in the 2015/16 financial year

51.30 Property, plant and equipment
Additional MIG allocation received

51.31 Finance lease obligation (current and non-current portion)
It was an oversight from management during the budget process

51.32 Payables from exchange transactions
Cash flow challenges affected the payment of service providers

51.33 Unspent conditional grants and receipts
The Municipality anticipated that all conditional grants will be spent at year-end

51.34 Provisions
Amount based on the assumptions made by the actuaries and the provision for the accumulated leave

51.35 Employee benefit obligation
Amount based on the assumptions made by the actuaries

Notes to the Annual Financial Statements

Figures in Rand

51. Budget differences (continued)

51.36 Long service award accrual
Provision for long service awards based on the actuaries' calculations

51.37 Accumulated surplus
The accumulated surplus is from the total revenue and expenditure from the financial year however not all the anticipated revenue was generated

52. VAT receivable

VAT	9,389,105	5,265,342

VAT is payable on the cash basis. VAT is paid over to SARS only once payment is received from receivables.
All VAT returns were submitted thoughout the year.

53. Prior period errors

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of compartives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.

Notes to the Annual Financial Statements

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53. Prior period errors (continued)

Property, plant and equipment

Statement of Financial Performance for the year ended 30 June 2015	Balance as previously reported	Prior period error	Restated balance
Revenue			
Service charges	38,851,587	(4,917,637)	33,933,950
Rental income	820,797	-	820,797
Interest received - consumers	19,925,640	-	19,925,640
Interest received - investment	1,765,792	-	1,765,792
Licences and permits (exchange)	2,336,519	-	2,336,519
Other income	965,539	-	965,539
Gain on disposal of assets	714,628	-	714,628
Property rates	36,324,852	980,350	37,305,202
Government grants and subisidies	341,138,488	-	341,138,488
Donations	9,153,570	-	9,153,570
Fines	1,937,741	-	1,937,741
Total revenue	453,935,153	(3,937,287)	449,997,866
Expenditure			
Employee related costs	117,131,453	-	117,131,453
Remuneration of councillors	14,112,693	-	14,112,693
Rehabilitation costs	3,275,313	-	3,275,313
Allowance for debt impairment	32,270,976	-	32,270,976
Depreciation and amortisation	36,929,976	-	36,929,976
Finance costs	14,855,160	(51,348)	14,803,812
Repairs and maintenance	14,177,683	15,336,604	29,514,287
Bulk purchases	54,170,720	-	54,170,720
Contracted services	35,538,902	-	35,538,902
General expenses	50,527,417	124,407	50,651,824
Total expenditure	372,990,293	15,409,663	388,399,956
Operating surplus / (deficit)	80,944,860	(19,346,950)	61,597,910
Fair value adjustments	53,164	-	53,164
Surplus / (deficit) for the year	80,998,024	(19,346,950)	61,651,074

Notes to the Annual Financial Statements

Figures in Rand

53. Prior period errors (continued)

Statement of Financial Position as at 30 June 2015

	Balance as previously reported	Prior period error	Restated balance
Assets			
Current Assets			
Cash and cash equivalents	3,932,975	-	3,932,975
Receivables from exchange transactions	43,374,585	(5,042,046)	38,332,539
Receivables from non-exchange transactions	68,460,073	980,350	69,440,423
Inventories	2,243,825	-	2,243,825
Investments	3,085,281	-	3,085,281
Operating lease asset	267,544	-	267,544
VAT receivable	5,265,342	-	5,265,342
Total current assets	126,629,625	(4,061,696)	122,567,929
Non-current Assets			
Investments	288,645	-	288,645
Investment property	19,142,500	-	19,142,500
Property, plant and equipment	932,855,053	(34,982,121)	897,872,932
Total non-current assets	952,286,198	(34,982,121)	917,304,077
Liabilities			
Current Liabilities			
Payables from exchange transactions	188,847,087	(926,372)	187,920,715
Unspent conditional grants	4,948,392	(13,505)	4,934,887
Finance lease obligation	429,512	(11,749)	417,763
Provisions	9,618,785	-	9,618,785
Total current liabilities	203,843,776	(951,626)	202,892,150
Non-current Liabilities			
Finance lease obligation	956,850	-	956,850
Employee benefit obligation	10,865,000	-	10,865,000
Provisions	22,508,555	-	22,508,555
Long service awards	6,092,000	-	6,092,000
Total non-current liabilities	40,422,405	-	40,422,405
Net Assets			
Surplus / (deficit) for the year	810,602,879	(38,092,191)	772,510,688
Reserves	24,046,763	-	24,046,763
Total net assets	834,649,642	(38,092,191)	796,557,451

53. Prior period errors (continued)

1. Repairs and maintenance

Correction of prior year repairs and maintenance expenditure incorrectly recorded under Work in progress

Repairs and maintenance		
Increase in repairs and maintenance	-	15,336,604
Decrease in property, plant and equipment	-	(15,336,604)
	-	**-**

2. Electrification project

Correction of prior year electrification project incorrectly recorded under Work in progress

Electrification project		
Decrease in accumulated surplus	-	14,150,815
Decrease in property, plant and equipment	-	(14,150,815)
	-	**-**

3. Correction of prior year figure

Correction of prior year figure due to journals incorrectly processed in 2014/2015

Correction of prior year figure		
Decrease in payables from exchange transactions	-	926,371
Decrease in property, plant and equipment	-	(926,371)
	-	**-**

4. Correction of LG SETA grant

Unconditional grant incorrectly classified as conditional grant at initial measurement in 2014

Correction of LG SETA grant		
Decrease in unspent conditional grants	-	13,505
Increase in accumulated surplus	-	(13,505)
	-	**-**

5. Asset register

Correction of differences noted between Other assets as per the general ledger and the asset register

Asset register		
Decrease in accumulated surplus	-	4,568,331
Decrease in property, plant and equipment	-	(4,568,331)
	-	**-**

53. Prior period errors (continued)

6. Revenue billing

Correction of overbilling of service charges and underbilling of property rates

Revenue billing		
Decrease in service charges revenue	-	4,917,637
Increase in receivables from exchange transactions	-	980,350
Increase in general expenses	-	124,409
Increase in property rates revenue	-	(980,350)
Decrease in receivables from exchange transactions	-	(5,042,046)
	-	**-**

7. Finance lease liability finance costs

Correction of prior year period error on the calculation of finance cost

Finance lease liability finance costs		
Decrease in finance lease obligation - current	-	56,625
Decrease in finance costs	-	(56,625)
	-	**-**

8. Unrecorded finance lease liability

Recognition of a finance lease liability erroneously unrecorded at 2015 year-end due to incorrect agreement dates used.

Unrecorded finance lease liability		
Increase in finance costs	-	5,277
Decease in accumulated surplus	-	39,598
Increase in finance lease obligation - current	-	(44,875)
	-	**-**

54. Unauthorised expenditure

Opening balance	52,302,635	-
Unauthorised expenditure - current year	143,757,838	11,382,245
Unauthorised expenditure - prior year, identified in current year	-	40,920,390
	196,060,473	**52,302,635**